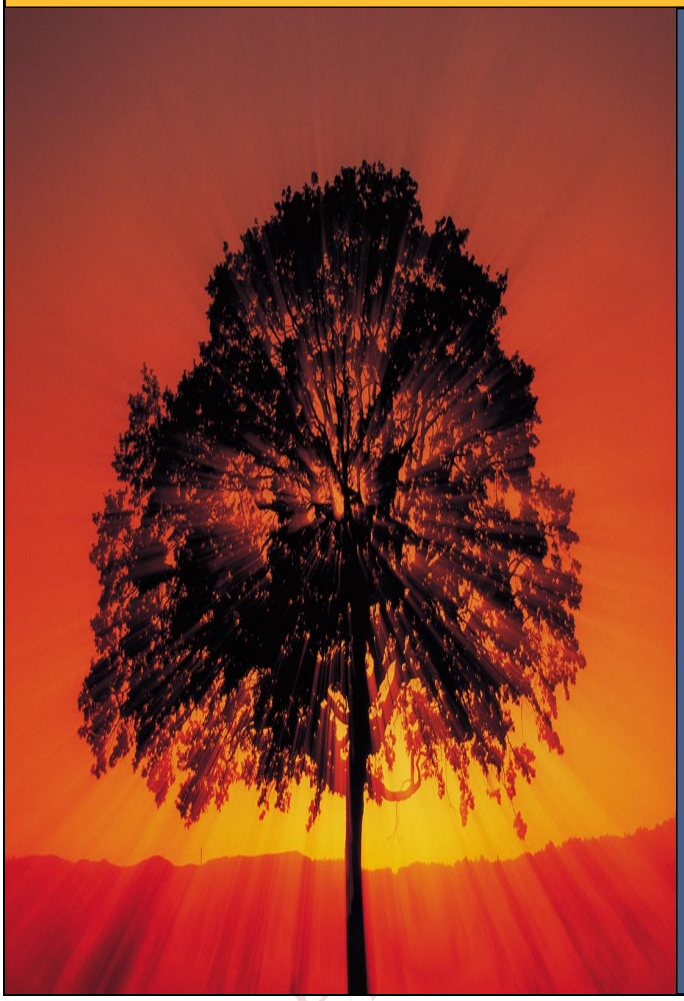
SYDNEY ENVIRONMENTAL RESOURCES LIMITED



ANNUAL

REPORT

2000-01

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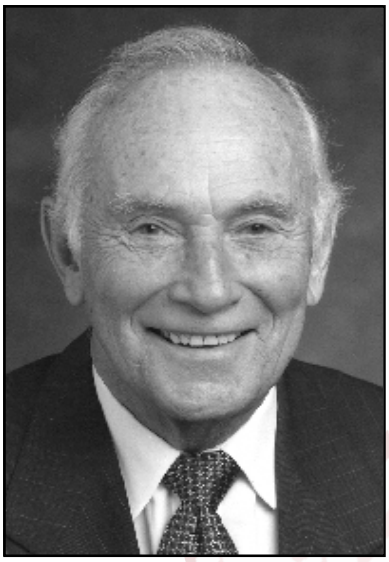


Ron Russell, MLA (Hants West)
Minister of Transportation and Public Works

Minister of Transportation and Public Works
Province of Nova Scotia
Halifax, Nova Scotia

Sir:

On behalf of the Board of Directors, I have the pleasure to submit herewith the Annual Report of Sydney Environmental Resources Limited for the period ended March 31, 2001.

Sydney Environmental Resources Limited continued focused on core business objectives, particularly support of the Department of Transportation and Public Works in discharging obligations within the partnership directing clean up of the Muggah Creek Watershed. As well, the Corporation intensified activities respecting decommissioning of the Sydney steel plant site.

Our employees continued to rise to the challenges of a changing workplace, to embrace multi-tasking, and new assignments. All that we do as a Corporation is directed at providing quality, cost effective service in keeping with the fiscal and environmental objectives of the Government of Nova Scotia. In this regard, we would like to acknowledge the guidance provided by the Department of Transportation and Public Works.

Sydney Environmental Resources Limited is an evolving company, flexible and versatile and open to new experiences. We believe that the Corporation has the talent and resources necessary to manage the challenges ahead as well as respond to the opportunities before us.

Respectfully yours,

E. J. MacLellan, Ph.D., P.Eng.
Acting Chairman

Corporate Profile

Origin

The Company was incorporated under the Nova Scotia Companies Act on July 10, 1990. The Governor in Council, Province of Nova Scotia, on the report and recommendation of the Minister of Industry Trade and Technology and in accordance with the appropriate Acts, approved establishment of Sydney Environmental Resources Limited (SERL), formerly Sydney Tar Ponds Clean-Up Inc., on March 26, 1991. SERL is responsible to maintain Nova Scotia's assets at the Sydney tar ponds site, secure Nova Scotia's land holdings within the Muggah Creek Watershed, interface with the Joint Action Group on the Environment (JAG) on environmental issues of mutual concern and assist Nova Scotia in discharging its responsibilities as lead agency in the implementation of the Memorandum of Understanding between JAG, Canada, Nova Scotia and the Cape Breton Regional Municipality.

SERL is organized around three units:

- ***FINANCE AND ADMINISTRATION;***
- ***INTERNAL AND EXTERNAL COMMUNICATIONS; AND***
- ***FACILITIES' MAINTENANCE, HEALTH AND SAFETY AND SITE SECURITY.***

The Corporation maintains its head office inSydney, NS, and reports to the Minister of Transportation and Public Works, Province of Nova Scotia.

Mission

To co-ordinate some areas of Nova Scotia's participation within the JAG process, as well, maintain the physical assets of Sydney Tar Ponds Clean-Up, decommission work place structures in the interests of health and safety; and secure Nova Scotia's land holdings within the Muggah Creek Watershed.

Core Business Functions

Sydney Environmental Resources Limited's core business functions are:

Δ To complement the efforts of the Department of Transportation and Public Works, in discharging Nova Scotia's responsibilities as lead agency within the framework of the Memorandum of Understanding between government partners and the Joint Action Group on Environmental Clean Up. Administrative staff interface with labour unions respecting the Muggah Creek Watershed, provide essential clerical and other administrative support services, provide administrative infrastructure, co-ordinate site logistics, establish and maintain necessary financial tracking processes, co-ordinate communications between Nova Scotia's representatives working on the file, and interface with the Joint Action Group;

Δ Until such time as a final recommendation is forthcoming on a clean up technology for the Sydney Tar Ponds, maintain the co-generation complex at the north end of the steel plant site, in particular the twin fluidized bed incinerators. The Corporation is doing so to ensure efficient recommissioning of the complex, if requested, at minimal cost and to provide the required independent technical and scientific information to support use of the combustion technology in the safe and efficient destruction of waste coal tars at Muggah Creek. In keeping with past practices, the Corporation is maintaining the complex on the basis of a structured maintenance plan. Where necessary, expert inputs are secured to ensure the highest standards in the maintenance effort;

Δ Within the framework of the Memorandum of Understanding between government partners and the Joint Action Group, deploy trained, experienced personnel to secure Nova Scotia's land holdings within the Muggah Creek Watershed. SERL continues to undertake this work cognizant of the importance of protecting Nova Scotia's interests and minimizing provincial liability; and

Δ By special arrangement, participate in decommissioning large-scale industrial structures throughout inoperative sections of the former steel plant site in an economical and safe fashion, in compliance with Nova Scotia's objectives respecting the remediation of the site and in the interests of longer term community development, in the Sydney area. This work is undertaken strategically to optimize the potential for cost-sharing with the Government of Canada and other partners, reduce the financial obligations of the province, provide mraningful employment, transfer skills to improve the employability of participants, address Nova Scotia's environmental obligations, strengthen relations with the local community and engender new household income to the benefit of Cape Breton.

Compliance With Government Policies and Procedures

SERL operated in compliance with the Policies and Procedures of the Province of Nova Scotia. More particularly with respect to procurement, the Corporation employed government principles and procedures to secure goods and services at the lowest possible cost while maintaining requisite quality, safety, delivery and services requirements. Additionally, fair-hiring practices applied. In the event non-unionized positions cannot be filled internally they are publicly advertised and recruitment is by means of open and fair competition. With respect to unionized positions, United Steelworkers of America Local 1064-2 members are recalled by seniority. The Corporation complies with Nova Scotia legislation on Freedom of Information.

Financial statements are prepared monthly and yearly in accordance with generally accepted accounting principles to reflect the financial position and results of operations of the Corporation within reasonable limits of materiality. The integrity of financial reporting is ensured with a system of internal accounting controls comprising written policies and procedures and a formal authorization structure. The Board of Directors carries out its responsibility for the financial statements through an Audit Committee. The financial statements of the Company are independently audited in accordance with generally accepted auditing standards.

Retrospect- Fiscal Year 2000/2001

Introduction

The 2000/2001 report period again saw the Corporation make operational adjustments to further support the Department of Transportation and Public Works as lead agency on the Memorandum of Understanding between the three levels of government and the Joint Action Group on Environmental Clean Up. As well, the Corporation was active in the removal of hazardous materials from large-scale industrial structures at the north end of the steel plant site. An industrial structures decommissioning plan was developed and submitted to government for consideration. In keeping with core business responsibilities, the co-generation complex originally constructed as part of the Sydney Tar Ponds Clean Up was maintained to ensure its readiness if required in the clean up of the Muggah Creek Watershed. As well, Nova Scotia land holdings at and around the Muggah Creek Watershed were secured. Finally, the Corporation responded to formal requests from the Agent of the Province of Nova Scotia on SYSCO and the Province of Nova Scotia, for the provision of services in decommissioning and securing the Sydney steel plant site.

Asbestos Abatement- Industrial Structures

Nova Scotia lands adjacent to the north end of the steel plant site in Sydney comprise antiquated inoperative structures formerly used in steel making. Many are laden with asbestos including A, B & D boilers. Housed in two large separate structures towering more than 80', the boilers were originally part of a complex steam generation system essential to the operation of the original integrated steel plant.

Beginning in December 2000, the Corporation engaged thirty-eight (38) displaced steelworkers for training in contained demolition techniques with emphasis on asbestos. Subsequently they were employed to remove asbestos at A, B & D boilers in compliance with all environmental, health and safety regulations. The project provided about 23,000 person hours of work and resulted in the safe removal of twenty-nine thousand bags (310 tons) of hazardous fibre. The material was extracted from miles of tubing and piping on the exterior of each boiler.

The asbestos abatement initiative was undertaken at a cost of $965,000. Nova Scotia was the predominant funding contributor with Human Resources Development Canada providing $95,000.

Industrial Structures Decommissioning

The Corporation developed an industrial structures decommissioning plan for inoperative buildings at the north end of the steel plant formerly used in steel production. The proposal was submitted to government for consideration.

Board of Directors

The Board of Directors met regularly throughout the fiscal year; in addition, special meetings were convened. Internal committees were utilized as follows: Audit, Technical, Human Resources, and Public Relations.

(Left to Right) Gerald Buckland, Edwin MacLellan, P. Eng., Ph. D.,Acting Chairman, Pat Muggah and Ray Martheleur, Vice Chairman

At full complement, the Board of Directors comprises seven. As at the end of the report period, there were three vacancies.

Corporate Plan

Early in 2001, the Board of Directors approved a corporate plan for the Fiscal Year 2001-2002. Among other things, it cited the Corporation's goals as comprising support for Nova Scotia's fiscal, environmental and health and safety objectives through the provision of a range of services appropriate to planning and preparing for the clean up of the Muggah Creek watershed as enunciated in the Memorandum of Understanding between government partners and the Joint Action Group; to ensure co-operative, productive labour relations with relevant collective bargaining units; to strengthen Nova Scotia's role as a partner in the clean up of the Muggah Creek Watershed through informed decision making and strategies consistent with the government's partnership objectives; and to pursue Nova Scotia's long-term environmental, health and safety, economic and fiscal objectives specifically respecting the former steel plant site by participating in the remediation of the area through the decommissioning of significant industrial structures in a cost effective and safe manner.

Coke Ovens Security

In compliance with an earlier recommendation of the Joint Action Group on Environmental Clean Up, Corporate personnel continued to secure the Coke Ovens site, coordinate tours and supervise contractors working on site. Staff of six is responsible for this endeavour, four of whom are affiliated with bargaining unit Local 1064-02 and two with the Canadian Union of Public Employees.

Co-Generation Plant Maintenance

Stephen Ash and Tom Slade

A complement of fifteen unionized staff completed a range of consequential tasks as part of a structured maintenance program at the co-generation plant. Included among more significant activities were the repair and replacement of head gaskets, unloader valves, and finger valves, general servicing of electrical system breakers, removal of obsolete wiring and circuit breakers, regular testing of electrical motors, adjustments to air control systems, servicing of cofferdam gates, and general maintenance of security facilities.

SYSCO Liquidation

Toward the end of the 2000 calendar year, Ernst & Young Inc., Agents for the Province of Nova Scotia on SYSCO, opened discussions with the Corporation respecting the provision of support services in the liquation of SYSCO and eventual decommissioning of steel plant structures. In this regard, Ernst & Young requested and subsequently was provided with proposals for the removal of asbestos from structures comprising the Open Hearth and the provision of security for the entire steel plant site. As at the end of the report period both proposals were under review.

Human Resources

The Corporation operated with full-time equivalent staff of twenty-five, in addition to term or part-time personnel of forty, for a total complement of sixty-five. Fourteen full-time staff were engaged in administrative, facilities maintenance and security activities. Five worked on health and safety initiatives and six provided security at the Coke Ovens site under terms

Pat Magliaro and Tammy McCabe

of a formal agreement with the Joint Action Group on Environmental Clean Up.

A early retirement package for steelworkers negotiated as part of the wind down of Sydney Steel Corporation between the Government of Nova Scotia and the United Steelworkers of America had implications for the Corporation's core workforce. Seventeen of twenty-five full-time personnel affiliated with the steelworkers collective bargaining unit declared their intention to accept the package and retire from active employment effective June 2001. Toward the end of the calendar year 2000, the Corporation's Human Resources Committee began planning to replace affected personnel.

Near the end of the report period, the Board of Directors assigned overall management responsibility for day-to-day operations of the Corporation to the position of Manager Finance, Purchasing and Accounts.

Collective Agreement

A four year collective agreement was negotiated with without incident. It is expected to strengthen the Corporation's operating position.

Relocation

To facilitate a closer working relationship with the Department of Transportation and Public Works in the capacity of lead agency on the Memorandum of Understanding between Canada, Nova Scotia, Cape Breton Regional Municipality and the Joint Action Group , the Board of Directors approved relocation of the Corporation to premises in Sydney on the steel plant site formally occupied by management of Sydney Steel Corporation. The new location is shared by Ernst & Young Inc., Agent of SYSCO and the Province of Nova Scotia and, therefore, conducive to a closer working relationship on matters concerning the wind down and decommissioning of Sydney Steel Corporation.

Communications

The Public Relations Committee, approved a number of initiatives in the interests of strengthened internal and external communication. Management worked closely with the Joint Action Group Secretariat in the opening of the Whitney Pier Community Outreach Centre. As well, in co-operation with the Joint Action Group Public Relations Office, protocols were developed respecting public tours of the Muggah Creek Watershed. An internal newsletter was published and given wide circulation with encouraging results. For the purpose of broadening and enhancing relations with community stakeholders, the Corporation began the practice of periodically recognizing citizens for their interest in the environment and dedication to learning about local environmental issues. Considerable effort was accorded media relations and as a consequence the Corporation was the subject of gratifying provincial news features.

Management continued active in the Nova Scotia Environmental Industry Association whose purpose it is to promote the growth, development and interests of the environmental industry within the province. Corporation staff responded to speaking engagements at local service clubs and the web site was frequently updated.

Joint Action Group on Environmental Clean Up

Throughout the report period. the Corporation worked closely with the JAG Secretariat and its government partners on a range of issues from community liaison, to site tours, Coke Ovens security and information transfer.

Financial Summary

During the year ended March 31, 2001, the financial activities of the Company included managing project administration costs, plant maintenance and security costs and remediation contract costs.

The audited financial statements for the year ended March 31, 2001 reflect operating expenditures of $1,854,400. A four year summary of Operating Expenditures is as follows:

OPERATING EXPENDITURES

2001	**$1,854,400**
2000	**$1,890,953**
1998	**$1,349,797**
1997	**$1,306,258**

Management Report

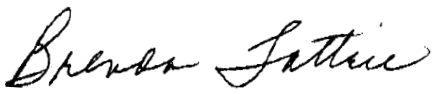
The accompanying financial statements and other financial information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles except as disclosed in Note 3 to the financial statements and, where appropriate, reflect management's best estimates and judgments. In the opinion of management, these financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

To discharge its responsibility for the integrity of financial reporting, management maintains a system of internal accounting controls comprising written policies and procedures and a formal authorization structure. This system is designed to provide management with reasonable assurance that assets are safeguarded; that transactions are properly authorized and that financial records are properly maintained to provide accurate and reliable financial information.

The Board of Directors carries out its responsibility for the financial statements through its Audit Committee, which consists entirely of members of the Company's Board. This Committee meets periodically with management and the external auditor to discuss and review audit and financial matters, and recommends the financial statements of the Board of Directors for approval. The Company's external auditor have free and full access to the Audit Committee.

The financial statements have been independently audited by J T Nash Limited in accordance with generally accepted auditing standards. The Auditor's Report outlines the nature of their audit and expresses their opinion on the financial statements.

Edwin MacLellan, P.Eng.
Acting Chairman



Brenda Tattrie, Manager
Finance, Purchasing & Accounts

John T Nash
Chartered Accountant

J T Nash Limited
Suite 204, 295 George Street, Sydney, Nova Scotia B1P 1J7
Telephone (902) 539-2770 Facimile (902) 539-4192
jnash@auracom.com

AUDITOR'S REPORT

To the Minister Responsible for Sydney Environmental Resources Limited

I have audited the operating fund balance sheet of **Sydney Environmental Resources Limited** for the year ended March 31, 2001 and the statement of revenue and expenditures for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2001, and the results of its operations for the year then ended, in accordance with generally accepted accounting principles except as disclosed in Note 3.

April 24, 2001

Chartered Accountant

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
BALANCE SHEET
AS AT MARCH 31, 2001

	2001	2000
ASSETS		
Current		
Cash	**$ 127,044**	$ 183,820
Accounts receivable	**77,901**	42,784
Prepaid expenses		
Operations	**50,000**	-
Asbestos abatement project (Note 4)	**69,781**	-
	$ 324,726	$ 226,604
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 293,184**	$ 146,662
Due to Province of Nova Scotia (Note 5)	**31,541**	79,941
	324,725	226,603
EQUITY		
Share capital (Note 9)	**1**	1
	$ 324,726	$ 226,604

Commitments (Note 8)

Approved by the Board

.....Director

.....Director

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
STATEMENT OF REVENUE AND EXPENDITURES
YEAR ENDED MARCH 31, 2001

	2001	2000
Operating revenue	**$ 1,854,400**	$ 1,890,953
Operating expenditures		
Civic taxes	**3,329**	3,348
Directors' fees	**10,142**	11,152
Health, safety and environmental	**162,663**	227,558
Incineration plant operation and maintenance	**52,898**	48,538
Incineration plant overhead	**185,476**	205,721
Site security and other community costs	**385,995**	343,151
Office	**21,288**	19,418
Professional fees	**15,159**	9,619
Public information	**44,585**	50,498
Rent	**32,500**	27,849
Salaries and benefits	**836,723**	809,732
Technical services	**86,156**	113,724
Telephone	**9,466**	10,336
Travel	**8,020**	10,309
	1,854,400	1,890,953
Excess revenue over expenditures	**$ NIL**	$ NIL

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

1. AUTHORITY AND OBJECTIVE

The Company was incorporated under the Nova Scotia Companies Act on July 10, 1990. It was established as a crown corporation of the Province of Nova Scotia by Order-in-Council on March 26, 1991. On January 7, 1998 the company changed its name from Sydney Tar Ponds Clean – Up Inc. to Sydney Environmental Resources Limited.

Its current objective is to utilize its resources in emerging community based environmental initiatives.

2. CONTINUATION OF THE BUSINESS

The accompanying financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The continuation of the Company is dependent upon obtaining necessary funding from the Province of Nova Scotia and/or the Government of Canada.

3. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles except as outlined below.

a) Financing

The Company, an agency of Her Majesty, receives legislative appropriations for operating expenditures. These appropriations are reflected as operating grants to the extent of operating expenditures. Any excess appropriations are accounted for as deferred operating grants. Consequently, the Company does not have any equity.

b) Capital Assets

In accordance with funding requirements, the cost of capital assets are accounted for as current operating expenditures.

4. ASBESTOS ABATEMENT PROJECT

The company has undertaken an Asbestos Abatement Project on its operating site in which it has entered in separate funding agreements with the Province of Nova Scotia for $968,000 and Human Resources Development Canada for $92,000. Total expenditures to March 31, 2001 were $582,711 while $512,930 was received from the funding partners, resulting in a net receivable of $69,781.

Expenditures are summarized as follows:

Wages and benefits	$ 357,084
Supplies	111,870
Equipment	45,569
Asbestos disposal	32,371
Air monitoring	19,784
Employee training	16,033
	$ 582,711

5. DUE TO PROVINCE OF NOVA SCOTIA

The payable to the Province of Nova Scotia as at March 31, 2001 represents operating funding received for the year ended March 31, 2001 in excess of operating expenditures.

6. RELATED PARTY TRANSACTIONS

During the year, the Company received a net current operating grant of $1,854,400 (2000 - $1,890,953) from the Province of Nova Scotia.

In addition to the above-noted related party transactions, the Company is related in terms of common ownership to all Province of Nova Scotia created departments, agencies and crown corporations. The Company enters into transactions with these entities in the normal course of business.

7. COMPENSATION LEGISLATION

The Company has complied with the provisions of the Public Sector Compensation Act.

8. COMMITMENTS

a) Operations

The Company has committed to the Province of Nova Scotia, that it will run its affairs in accordance with Provincial standards. Its operations will be accountable to the Province through the Minister responsible for Sydney Environmental Resources Limited.

b) Land Lease

The Company has entered into an agreement with Canadian National Railway Company to lease approximately 46 acres of land for an annual rental of $1.00. The land gives the Company access to the Sydney Tar Ponds. The Company undertakes not to further contaminate any leased lands. The lease expires October 31, 2001.

c) Sydney Steel Corporation

The company has undertaken to hire displaced Sydney Steel Corporation employees.

9. SHARE CAPITAL

Authorized
50,000 common shares with no par value

Issued	
1 share at $1	$ 1

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
P.O. Box 1028, STN. "A"
Sydney, Nova Scotia B1P 6J7
TEL: (902) 567-1133 FAX: (902) 564-0027
Email: serl@gov.ns.ca